

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes
Bill Leonard, Member
State Board of Equalization*

June 11, 2007

QUOTE OF THE WEEK

"For these men are lately drawn from the ways of peace. They fight not for the lust of conquest. They fight to end conquest. They fight to liberate. They fight to let justice arise, and tolerance and good will among all Thy people."

(Franklin Roosevelt – D-Day Prayer, June 6, 1944)

UNDER THE DOME

*****Kudos for Divestment Bill*****

I am pleased to report that last Tuesday the assembly unanimously passed AB 221, which would require CalPERS and CalSTRS to sell or transfer any investments in a company with business operations in Iran. It also requires annual reports to the legislature from the retirement systems on the status of their investments in any company with business operations in Iran.

Kudos to Joel Anderson (R- El Cajon) for authoring the bill. Assembly Members Levine (D- Van Nuys), Lieber (D- Mountain View), Lieu (D- El Segundo), Ma (D- San Francisco), and Solorio (D- Anaheim) are principal co-authors.

Check out the Center for Security Policy site on their nationwide effort to divest American investments out of terror sponsoring states:

<http://www.centerforsecuritypolicy.org/home.aspx?sid=56&categoryid=56&subcategoryid=57&newsid=11567>

ISSUE FOCUS

*****Self-Dealing Gravely Harms Initiative Process*****

Special to the FlashReport: <http://www.flashreport.org/>

The initiative process is crucial for addressing problems when legislators refuse to listen to the people and the people are united to take action themselves. California approved the initiative process in 1911, heeding Governor Hiram Johnson's call to establish the initiative and recall so the people could protect themselves from abusive private interests.

The irony is Hiram Johnson's initiative, instead of being a bulwark against private interests, has in two glaring instances become a tool of them. These abuses have tarnished the initiative system that has served the people well, as it did with Proposition 13. The need for that initiative was not private interests; it was government that had to be reined in by the people. The reforms of Proposition 13 would never have happened without the initiative.

That being said, we now know the initiative can be the worst of democracy. James Madison said there are two purposes of multi-branch, republican government: "...First, to protect the people against their rulers, secondly, to protect the people against the transient impression into which they might be led." In other words, when people are allowed to vote their own self interest they can and will override the common good the legislative system is designed to achieve.

In California there are two recent examples of this worst case scenario: The stem cell bond and the water bond. It is alarming how easily these two bonds corrupted the constitutional limits on government by bypassing long understood standards and rules.

The stem cell bond (2004's Proposition 71) spends 30-year bond debt on research, but the State Constitution prohibits bond money from being used for ongoing operations. These funds are constitutionally limited to one-time expenses that build up or repair the state's essential infrastructure. No problem – within the stem cell bond, proponents crafted an initiative constitutional amendment that changed the rules just for them. The lack of state oversight and conflicts of interest are other problems. Last month, the Supreme Court cleared the way for the wealthy author of the initiative to also be the chairman of the funding board that distributes the bond money. Members of that board are barred from voting on funds that benefit themselves. But, since they can approve each others' projects, the obvious inherent conflicts will not be addressed and are now officially blessed.

Last fall's Proposition 84, "the un-water bond", is the other example. The people voted on the stated purpose of the bond, protecting the state's water, not knowing the truthful stench of special interests that were the true beneficiaries. Moreover, since the bond did not go through the legislative process there was no public discussion on the state's actual needs, or to balance interests such as northern and southern California, or coastal and mountain California.

The biggest problem of all in my view is that it is widely understood that to get money out of these bonds an interest group had to come up with campaign money to advance it. George Skelton of the Los Angeles Times lists a couple of egregious examples. One contributor put up \$100,000 for the water bond and is open about his hope to get \$10- \$15 million in return for his organization. <http://www.latimes.com/news/local/la-me-cap24may24,1,55053.column> . If a legislator did this it would be a felony and they would rightly forfeit their office. But again, initiatives can exempt themselves from laws that bind all others.

Our challenge now is to protect the initiative process in the way Governor Hiram Johnson meant it to work and how it has been used wisely by various groups to appeal to the people when the Legislature has ignored them. We must prevent the well heeled, self-serving proponents from going around the Constitution, or making constitutional law according to their own narrow

interests. This can only be done on a case-by-case manner by a well informed electorate. The initiative is too important. Will this experiment in direct democracy be able to last 100 years?

*****Israel Eyes Energy Security*****

I saw this intriguing story on Jaaretz.com – “Israel eyes liquefied natural gas tender to diversify energy supply”. A government minister explained their embrace of this technology saying it was simply that Israel needed to secure energy from a number of sources in case of a further rise in fuel prices or in case global supplies of fossil fuels start to run out. Makes sense to me. It is unfortunate that California officials are not as forward looking.

We are very blessed to live where we do. The Israelis do not have it as good. The proximity to grave threats infuses in that society a sobering reality.

<http://www.haaretz.com/hasen/spages/867396.html>

*****Tort Reform is Still a Good Issue*****

Tort reform is an issue that still resonates with Americans, especially when examples of egregious lawsuits are made known. One good idea for reform is to find ways to discourage frivolous lawsuits. True Stella Awards has a site that has some exemplary (bad) examples from 2002 through 2006.

One of the notable mentions for 2006: “KinderStart.com. The specialty search engine says in Court that Google should be forced to include the KinderStart site in its listings, reveal how its "Page Rank" system works, and pay them lots of money because they're a competitor. They claim by not being ranked higher in Google, Google is somehow infringing KinderStart's Constitutional right to free speech. Even if by some stretch they were a competitor of Google, why in the world would they think it's Google's responsibility to help them succeed? And if Google's "review" of their site is negative, wouldn't a government court order forcing them to change it infringe on Google's Constitutional right to free speech?”

<http://www.stellaawards.com/2006.html>

MISCELLANY

*****A Good Read*****

Everyone is an economist. That is the argument of David Friedman in his interesting book “Hidden Order: The Economics of Everyday Life.” Economics is decision making and we all make decisions. While most people assume that economics is focused on money, Friedman points out that money is only a medium of exchange. Decisions in life are made based on choices between alternatives of factors including cost, time, desire, and satisfaction. He enlivens his points with real examples of people making decisions.

I particularly like his rebuttal to politicians who want to know how to vote on tariffs, minimum wage and other issues. His answer: it depends who you want to benefit. Most choices benefit one group over another. Some choices cost everybody something, and rarely does everyone benefit. This underscores a public choice variable that my friend Steve Kinney analyzes in polls and that is intensity. A small group that is very intense about an issue will prevail over a large group that does not really care. Everybody says they care about education, but only the teachers' union cares enough to get fully engaged on their agenda. Friedman's book is one on economics that is a good read.

BOE AND LEGISLATIVE DATES

June 15, 2007 --- Budget Bill must be passed by midnight (Art. IV, Sec. 12(c)).

June 19-21, 2007 --- Board of Equalization meets in Culver City.

July 4, 2007 --- Independence Day.

July 13, 2007 --- Last day for policy committees to hear and report bills (J.R. 61(a)(10)).

July 17-18, 2007 --- Board of Equalization meets in Sacramento.

July 20, 2007 --- Summer Recess begins on adjournment, provided Budget Bill has been passed (J.R. 51(a)(3)).

August 14-15, 2007 --- Board of Equalization meets in Sacramento.

August 20, 2007 --- Legislature reconvenes from Summer Recess (J.R. 51 (a)(3)).

September 3, 2007 --- Labor Day.

September 7, 2007 --- Last day to amend on the Floor (J.R. 61(a)(13), A.R. 69(e)).

NOTABLE DATES/ HISTORY

June 11, 1950 --- Alabama Governor George Wallace attempted to block the entry of the first black students to the University of Alabama. The students were permitted entry when federal troops intervened.

June 12, 1963 --- Medgar Evers, a field secretary for the NAACP, was shot and killed outside his home in Jackson, Mississippi. In 1994, white supremacist Byron De La Beckwith was convicted of the murder.

June 13, 1966 --- In *Miranda v. Arizona*, the U.S. Supreme Court held that police officers must inform criminal suspects of their legal rights before arresting and questioning them.

June 14, 1777 --- The Continental Congress voted to adopt a flag with 13 stars and 13 stripes as the new country's official flag.

June 15, 1752 --- Benjamin Franklin and his son conducted an experiment involving a kite and key during a thunderstorm, confirming Franklin's theory that lightning is electrical.

June 15, 1844 --- Charles Goodyear received a U.S. patent for the vulcanization of rubber.

June 16, 1846 --- Residents of Alta California revolted against Mexican rule, captured the Mexican garrison at Sonoma, and proclaimed the independence of their settlements. The rebels hoisted a homemade flag featuring a grizzly bear and the words "California Republic," thus naming the rebellion the Bear Flag Revolt.

June 17, 1775 --- British troops attacked Massachusetts militiamen in the Battle of Bunker Hill.

June 17, 1972 --- Five men were arrested in a burglary of Democrat Party offices in the Watergate complex in Washington, D.C.

June 17, 1994 --- Driving a white Ford Bronco, O. J. Simpson lead police on a slow freeway chase before he was arrested for the murder of his wife and Ron Goldman.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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